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UNCLAS SECTION 01 OF 02 MEXICO 001123

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STATE PASS TO USTR, JONATHAN MCHALE,  
AND TO FCC, EMILY TALAGA

E.O. 12958: N/A  
TAGS: [ECPS](#) [ECON](#) [MX](#)  
SUBJECT: CEO SAYS UNFAIR TO LABEL TELMEX A MONOPOLY

REF: 06 MEXICO 01080

¶1. (U) Summary: In meeting with Econ Mincouns and Econoff February 10, Jaime Chico Pardo, CEO of Telmex, refuted accusations that Telmex and Telcel are monopolies. He claimed Telmex has experienced a major decline in revenue and currently controls only 38 percent of traffic. Chico Pardo focused on future trends and how Mexico can improve its competitiveness and increase access to technology throughout Mexico. End Summary.

#### TELMEX'S FUTURE

¶2. (U) Chico Pardo noted that although Telmex owns 90 percent of fixed lines in Mexico, it is responsible for only 38 percent of the traffic. Chico Pardo said that there is now little money in fixed line services. He claimed Telmex revenues are declining and explained that Telcel is worth twice as much. He said more competition, lower tariffs, and higher discounts have sparked a decline in revenue for Telmex. (He mentioned he was going to give a presentation to the Federal Competition Commission (COFECO) on how Mexico's tariffs are in line with global standards.) Chico Pardo said the future is centered on broadband and triple play services (voice, data, and video), as well as quality of service guarantees.

¶3. (SBU) Chico Pardo believes that dealing with convergence issues is challenging. He believes Vonage and some other internet phone companies have become "free riders." He also categorized the ruling to allow Nextel to offer Short Messaging Services (SMS) by the Federal Communications Commission (COFETEL) as an endorsement of "free ridership" since other companies paid for a license to offer such services and Nextel only paid to be a trunking operator. When asked whether Telmex supported the pending Radio and Television Law proposal (reftel), Chico Pardo said the legislation could weaken Telmex and other telecom companies because the legislation enables the broadcasting companies to have convergence more easily than telecommunications companies.

#### ANTI-COMPETITIVE PRACTICES

¶4. (SBU) On the day of our meeting, the Wall Street Journal published a negative editorial on Telmex, basically calling it a monopoly. Chico Pardo referred to the article and said it was unfair to label Telmex as a monopoly. In addition, he claimed Mexico's Federal Competition Commission, COFECO, ruled that neither Telmex or Telcel are monopolies. Chico Pardo said COFECO should worry more about anti-competitive practices in the media sector and cited Televisa as having too much control over content access. He believes

accusations are unwarranted and are made because people don't see past Carlos Slim's other business interests.

#### INDUSTRY OPPORTUNITIES

15. (U) Chico Pardo said that the GOM "missed the boat" on establishing a strong software and PC manufacturing industry/maquila sector. He believes that Mexico could have remained competitive even with other countries that offer cheap labor by operating the maquilas 24/7 using shiftwork.

#### ACCESS TO TELECOMMUNICATIONS AND TECHNOLOGY

16. (U) Chico said Mexico has one of the most modern telecommunication and technology infrastructures in the world but it is extremely challenging to ensure access for everyone. He believes community access to telecommunications and technology in Mexico is much better than individual access. He praised E-Mexico, a project to increase community access to the internet, as a good starting point but said the project was small and did not have a lot of private sector support. He touted the efforts of the Telmex Foundation to increase access for school systems and train teachers in computer skills. He also mentioned that the Telmex Foundation had been working with MIT to develop low-cost affordable PCs with a plan to buy the systems in bulk for a very low price to distribute throughout Mexico. However, he said the project needs more private sector backing before it can proceed.

#### COMMENT

17. (SBU) Chico Pardo appeared sincere about increasing

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Mexico's competitiveness and access to technology and discussed ways in which he and his company were contributing to the community. However, Telmex charges tariffs and inter-connection rates far above cost, making it unclear whether Chico Pardo wants to truly improve access to technology or whether he wants to improve access only to Telmex and Telcel.

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